



January 5, 2018

Employee Withholding Changes in the New Year

HUMAN RESOURCES, TAX, TAX REFORM
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Shortly after the tax bill was signed by President Trump, the Internal Revenue Service ("IRS") issued a statement on December 26, 2017 indicating that they are currently working to develop withholding guidance for 2018. The Tax Cuts and Jobs Act (the Act) substantially changed individual income tax brackets and rates effective January 1, 2018 - it is important to note they are slated to expire in 2025. The Act has seven progressive tax rates of 10, 12, 22, 24, 32, 35, and 37 percent with new accompanying income ranges for each bracket.

The IRS anticipates that the new 2018 withholding guidelines will come out sometime in January 2018. In its statement, the IRS noted that after the guidance is released "employers and payroll service providers will be encouraged to implement the new withholding tables in February."

Most likely, a new version of the W-4 form, plus new instructions, will be released by the IRS around the same time. The IRS stated that the new guidance "will be designed to work with the existing Forms W-4 that employees have already filed." However, since the new law repeals deductions for personal exemptions, and increases the standard deduction, the methodology, terminology, and instructions in the existing Form W-4 seem dated. Further, the child tax credit, set to increase from \$1,000 to \$2,000, and a new additional \$500 family credit for non-child dependents would affect an employee's tax liability upon which withholding is supposed to offset.

In their statement, the IRS emphasized that no further action by taxpayers is needed at this time. Employers are generally required to withhold taxes from employees based upon the forms provided by employees, therefore employees should expect to adjust their income tax withholding and prepare a new Form W-4 for their employers after the guidance is released.

Individual taxpayers will likely begin to see the benefits of those withholding changes as early as February. If you have questions about the new income tax brackets or withholding, [contact us](#).

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